



Günter Verheugen
Vice-President of the European
Commission
Rue de la Loi, 200
1049 Bruxelles

30 May 2006

THE PRESIDENT

Dear Vice-President,

Re: High Level Group draft report on an integrated approach on competitiveness, energy and environment policies

To my great regret, I have to inform you that unavoidable obligations will prevent me from taking part in the meeting of the High Level Group on 2 June 2006. Please accept my apologies.

I consider that the draft report dated 24 May 2006 constitutes a very useful first contribution for clarifying the interrelations between competitiveness, energy and the environment, and for developing the necessary integrated approaches.

With a view to finalisation of the above-mentioned report at the meeting, I would like to use this letter to make the comments I would otherwise have presented if I had attended the meeting. These comments relate to unbundling and to the section on the EU Emissions Trading Scheme (ETS).

Recommendation (2) on page 3:

I entirely support this recommendation, stressing the point that unbundling can be effectively implemented in the framework of existing EU legislation.

Point 17:

The draft report takes the view that 2°C is the maximum temperature increase that the earth can sustain. As is well known, there is a debate within the scientific community on the level of this parameter, and on the emission pathways that can be envisaged to remain within it.

It seems to me premature to make conclusive statements on this issue because it should be examined by Ad Hoc Group 5.

Therefore, I would like that point 17 only expresses the idea that the effective implementation of the Kyoto Protocol's commitments and a well functioning EU ETS are important first steps towards finding a global solution to climate change.

Point 22:

A key condition for a well functioning ETS is creation of a genuinely open Community market in gas and electricity. Therefore, I propose that point 22 should be formulated as follows:

*"It is inherent to a successful market-based instrument that incurred costs flow through the economic chain in order to provide appropriate economic signals regarding carbon avoidance. **The impact** of the ETS on the wholesale electricity prices will depend **not only** on the allocated volume, **but also on the competition context in which the CO₂ price is incorporated in electricity prices**. Insufficient maturity of energy markets is alleged to have led to insufficient competitive pressure to reduce the pass-through of **the allowance price** in electricity prices and to so-called windfall profits for electricity producers."*

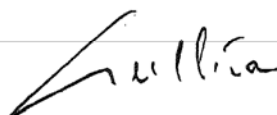
Recommendation 19 on page 8:

I cannot endorse the recommendation (19) that Member States should consider partial auctioning of allowances. Auctioning would result in an extra unpredictable cost on EU business, a cost not faced by Europe's competitors.

Thank you for the consideration you may give to these comments, which I am taking the liberty of circulating to all members of the HLG.

I hope that publication of the report will give a strong stimulus to the integration policies it advocates.

Yours sincerely,



Ernest-Antoine Seillière